REVIEWS AND NEW BOOKS

General Works, Theory and Its History

Elementary Principles of Economics. By IRVING FISHER. (New York: The Macmillan Company. 1912. Pp. xxviii, 531. $2.00.)

This is one of the most difficult books to appraise which it has been the good fortune of the reviewer to read. It is instructive, stimulating, and ably written; it contains a great deal of new material, and presents new points of view. On the other hand, it scarcely justifies its name, because, in the first place, it is not elementary; and, in the second place, it discusses only a few principles, and they seem to be confined mainly to certain favorite theories of the author which he had already set forth in other books. At any rate it appears to the reviewer that the subjects of the value of money and the relation of interest to money are developed out of all proportion to such fundamental principles as diminishing returns, rent, cost, profits, wages, standard of living, etc. It seems to be written mainly for the purpose of interpreting certain economic principles to the accountant, the business man, and the investor, rather than for the education of the lawmaker or the voter.

The author's point of view is perhaps illustrated by the statement near the beginning of chapter 1, that public problems suggest that something is wrong with the present economic order of society, and that there is a way to remedy it. But before we can treat the economic diseases, we must first understand the economic principles which these public questions involve. Now it seems to the reviewer that public questions no more imply the existence of economic diseases than do purely industrial problems. It is as reasonable to regard hunger as a disease and industry as a means of curing the disease, as it is to regard the conflict of interests among individuals as a disease, and government regulation as a means of curing that disease. All human activities, private as well as public, are concerned with the general problem of human adjustment, and the existence of such a problem always implies some degree of maladjustment. This includes even hunger and cold. The study of the nature of these maladjustments growing out of scarcity, of self-interest, or of conflict of interests, is the appropriate field for the science of economics. Public as well as

private problems grow out of these conditions, and they are normal rather than abnormal. They signify health rather than disease. The task of the economist, therefore, is to analyze these problems of adjustment for the purpose of finding out what factors and forces may be controlled by the human will and directed toward their solution. From this point of view it is superficial to say that economic science has nothing to do with public problems as such. It has to do with nothing else.

The author finds the traditional subdivision of economics into production, exchange, distribution, and consumption impracticable. One of the reasons which he gives for this finding is that distribution has in theoretical discussions "long since ceased to be a description of the processes by which food, clothing, and other goods are distributed after being produced and prior to being consumed, and has become simply a study of the determination of rent, interest, and other market magnitudes." Now it seems to the reviewer that these theoretical discussions are directly concerned with the processes by which products are distributed; for if products are to be distributed at all, they must be distributed in *some kind of proportions*. These proportions are either accidental or they are determined by laws and principles. Theoretical discussions of distribution are concerned with the laws which determine the proportions of the products of industry which are distributed between various classes prior to being consumed.

Most economists are already familiar with Professor Fisher's masterly analysis of the problem of the value of money. He has reproduced in this text his famous diagram of the balances weighted with commodities on the one side and with specie and credits on the other. This, together with many other illustrations, is designed to prove conclusively, as the reviewer believes, the correctness of Professor Fisher's formula: $MV + M'V' = PT$ (p. 235). In this formula M equals the volume of money, V its velocity of circulation, while M′ and V′ respectively signify bank credits or substitutes for money and the velocity of their circulation. On the other side of the equation, P stands for the price level, while T represents the volume of trade.

The weakness of the discussion, however, is in the assumption that the correctness of the equation carries with it the correctness of the quantity theory of money. A little scrutiny will reveal the fact that nothing whatever is shown, either in the formula or in the argument, as to the relation between M and P, or what deter-

mines M or what determines P. In order to support the quantity theory, it must be shown that M determines P, rather than that P determines M. The opponent of the quantity theory could quite as readily adopt this formula as can one of its supporters. The opponent would maintain that P determines M. That is, when the price level rises it takes a larger number of monetary units, say dollars, to transact the business. If gold should fall in purchasing power, for example, more money would have to come into circulation in order to transact a given volume of business at the higher range of prices. What *is* it after all that determines M and P? Absolutely no light is thrown on that question.

The author's discussion of interest is in substantial harmony with current theories on the subject, both as to method and conclusion. The one important difference is that he uses one or two new terms, such as the "impatience theory" as a substitute for the "discounting of the future," which was in itself only a substitute for the "abstinence theory." The author fails, however, to distinguish between the source of interest and the factors which determine the rate of interest. He rejects the productivity theory as an explanation of the *rate* of interest, in which he is doubtless correct; but he specifically uses the impatience theory as explaining the *source* of interest, which is obviously wrong. As a matter of fact, if capital—that is, tools—were not productive, there would be no source of interest at all. The rate of interest is, of course, a matter of comparative valuation of present and future goods, as it is commonly stated, or in Professor Fisher's language, a preference for early consumable income over late consumable income (p. 374). Obviously no theory of interest is complete which does not explain both the *source* of the capitalist's income and also the *ratio* of that income to the value of his capital. The productivity theory is absolutely essential to the first, though the abstinence or impatience theory explains the second. In short, if it were not for the productivity of capital, there would be no income to capitalize. And if there were no income to capitalize, there would be no problem to be explained by means of the impatience theory.

There are so many points on which the reviewer's point of view is different from that of the author that it is difficult to avoid seeming overcritical. The reviewer wishes, therefore, to record his admiration for Professor Fisher as an acute analyst and an able controversialist. As a controversial work, or as a book de-

signed to set forth the author's peculiar views, the work before us is a model of excellence; but if it is to be appraised as an elementary treatise designed to give beginners in economics a general grasp of the science, which would seem to be implied in its title, the reviewer must frankly say that, in his opinion, it is likely to prove somewhat one-sided.

T. N. CARVER.

Wealth and Welfare. By A. C. PIGOU. (London: Macmillan and Company. 1912. Pp. xxi, 493. 8s.)

There is a current play in which the heroine says to the hero, who has just avowed his devotion in distinctly unusual terms: "How dare you tell me such an interesting thing in such a horrid way?" Professor Pigou's book has already gained well-deserved praise from Professor Edgeworth,[1] and there is little danger that its brilliant quality and significance will go unappreciated among students of economics, who should be sufficiently hardened to withstand the somewhat benumbing effect of its style. So that if the present writer seems overcritical, Professor Pigou will understand that the very merits of the work make one resent its faults the more.

The book is a general treatise with a special point of view and method of attack which put the author's personal mark on everything he touches, from index numbers to outdoor relief. The point of view is the constant inquiry how society can get the maximum satisfaction-income from economic goods and services, and the method is an unusually keen and exacting deductive analysis, fortified with citations of fact which show remarkably wide and varied knowledge. But the *a priori* reasoning ever takes first place. Indeed, the author, in discussing the relative efficiency of public and private operation of utilities, frankly throws statistics out of court, as being vitiated by the disturbing factors of each individual case, and prefers to rely on the *a priori* balancing of two forces making for efficiency and four others making against it. Fortunately, the result with which he emerges is such as to corroborate the conclusions of the statisticians.

To epitomize such a work in a review is impossible. A delicately accurate method of weighting index numbers, a discussion of wastes arising when the fruits of improvements accrue to others than the creators, and of the possibility of correcting this by

[1] In *Economic Journal*, March, 1913.